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## **Part III Actuarial Memorandum (REDACTED)**

**Aetna Health Inc. (a PA corp.)  
Individual Rate Filing  
Effective January 1, 2016**

Prepared for:  
**Aetna Health Inc. (a PA corp.)**

Prepared by:  
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## EXHIBIT 1. GENERAL INFORMATION

### Document Overview

This document contains the Part III Actuarial Memorandum for Aetna Health Inc. (a PA corp.)'s (Aetna) individual block of business, effective January 1, 2016. This actuarial memorandum is submitted in conjunction with the Part I Unified Rate Review Template.

The purpose of the actuarial memorandum is to provide certain information related to the submission, including support for the values entered into the Part I Unified Rate Review Template, which supports compliance with the market rating rules and reasonableness of applicable rate increases. This information may not be appropriate for other purposes.

As stated more fully below, the rates requested in this submission assume that members who purchase through the state or federal-facilitated marketplaces will remain eligible for federal subsidies. We reserve the right to amend or withdraw this rate filing if the Supreme Court holds otherwise in the pending case of *King v. Burwell*.

This information is intended for use by the Commonwealth of Kentucky Department of Insurance, the Center for Consumer Information and Insurance Oversight (CCIIO), and their subcontractors to assist in the review of Aetna's individual rate filing. However, we recognize that this certification may become a public document. Milliman makes no representations or warranties regarding the contents of this letter to other users. Likewise, other users of this letter should not place reliance upon this actuarial memorandum that would result in the creation of any duty or liability for Milliman under any theory of law.

### Company Identifying Information

Company Legal Name: Aetna Health Inc. (a PA corp.)  
State: The Commonwealth of Kentucky has regulatory authority over these policies.  
HIOS Issuer ID: 34822  
Market: Individual  
Effective Date: January 1, 2016

### Company Contact Information

Primary Contact Name: Trey Swacker  
Primary Contact Telephone Number: (860)-273-4748  
Primary Contact Email Address: SwackerW@aetna.com

**EXHIBIT 2. PROPOSED RATE INCREASE(S) (REDACTED)**

### EXHIBIT 3. EXPERIENCE PREMIUM AND CLAIMS

Not applicable as Aetna has no inforce business and no historical experience. Premium rates presented are 100% manually rated.

## EXHIBIT 4. BENEFIT CATEGORIES

The benefit categories used generally align with the Federal instructions dated February 21, 2015. Inpatient Hospital consists of care delivered at an inpatient facility and associated expenses, including day-based mental health services. Outpatient Hospital includes outpatient surgical as well as emergency care and associated expenses. Professional includes both specialty physician and primary care physician expenses, including visit-based mental health services. Other includes home health care, mental health care, medical pharmacy expenses, as well as laboratory and radiology expenses. Non-capitated ambulance is included in the Outpatient Hospital category when billed by the facility and included in Specialist Physician otherwise. Prescription Drug includes drugs dispensed by a pharmacy.

The utilization for these services are counted by service type, and aggregated for each benefit category. Inpatient Hospital utilization is counted as days; Outpatient Hospital, Professional, and Other Medical utilization are counted as visits. Prescription Drug utilization is counted per script.

EXHIBIT 5. PROJECTION FACTORS (REDACTED)

## EXHIBIT 6. CREDIBILITY MANUAL RATE DEVELOPMENT (REDACTED)

Source and Appropriateness of Experience Data Used in Manual Rate Development

Changes in the Morbidity of the Population Insured

Changes in Benefits



## **EXHIBIT 6. CREDIBILITY MANUAL RATE DEVELOPMENT (REDACTED)**

Pharmacy trend considers the impact of formulary changes, patent expirations, new drugs, other general market share shifts, and overall utilization trend.

### **Change to Pharmacy Benefits**

## EXHIBIT 7. CREDIBILITY OF EXPERIENCE

Not applicable. Aetna does not have experience in the base period to use in rate development; therefore, the 2016 rate development is based solely on manual rates.

## EXHIBIT 8. PAID TO ALLOWED RATIO (REDACTED)

The following table provides support for the average paid to allowed ratio shown in Worksheet 1, Section III. The table also demonstrates that the ratio is consistent with membership projections by plan included in Worksheet 2.

**Table 8.1**  
**Aetna Health Inc. (a PA corp.)**  
**Paid to Allowed Average Factor Support Exhibit**

## EXHIBIT 9. RISK ADJUSTMENT AND REINSURANCE (REDACTED)

Projected Risk Adjustments PMPM

Projected ACA Reinsurance Recoveries Net of Reinsurance Premium

**EXHIBIT 10. NON-BENEFIT EXPENSES AND PROFIT & RISK (REDACTED)**

EXHIBIT 11. PROJECTED LOSS RATIO (REDACTED)

## EXHIBIT 12. SINGLE RISK POOL

Aetna premium rates are developed using a single risk pool, established according to the requirements in 45 CFR section 156.80(d) and reflects all covered lives for every non-grandfathered product/plan combination, in the Commonwealth of Kentucky individual health insurance market.

Note that the Single Risk Pool includes transitional products/plans for purposes of the base rate experience; however, the experience for these policies has only been used in the projection to the extent that Aetna anticipates the members in those policies will be enrolled in their fully ACA-compliant plans during the projected period.

## EXHIBIT 13. INDEX RATE

The index rate for the projection period is a measurement of the average allowed claims PMPM for EHB benefits. The projected index rate reflects the projected CY2016 mixture of smoker/non-smoker population, area factors, catastrophic/non-catastrophic enrollment, and the projected mixture of risk morbidity that Aetna expects to receive in the Single Risk Pool. There were no additional benefits offered beyond the EHB benefits. The projected Index Rate has not been adjusted for payments and charges projected under the risk adjustment and reinsurance programs, or for Marketplace user fees.

The projected Index Rate is equal to the projected total allowed claims PMPM since there are no benefits offered beyond the EHB benefits. The index rate for the projection period is \$419.42.



## EXHIBIT 14. MARKET ADJUSTED INDEX RATES (REDACTED)

The following table summarizes the factors applied to the Index Rate in the projection period to determine the Market Adjusted Index Rate.

The Market Adjusted Index Rate is not calibrated. This means that this rate reflects the average demographic characteristics of the single risk pool.

Each of the above modifiers were developed as follows:

- Net Risk Adjustment
- Net Transitional Reinsurance
- Marketplace User Fee adjustment

## EXHIBIT 15. PLAN ADJUSTED INDEX RATES (REDACTED)

The Market Adjusted Index Rate is adjusted to compute the Plan Adjusted Index Rates using the following allowable adjustments:

- Actuarial value and cost sharing adjustment
  - The CMS Actuarial Value Calculator was used to determine the AV metal value for each plan.
  - Adjustment is developed so that the resulting Plan Adjusted Index Rate excludes the cost expected to be recouped through the tobacco surcharge.
- Provider network, delivery system and utilization management adjustment
  - Not applicable.
- Adjustment for benefits in addition to the EHBs
  - No additional EHBs benefits were added.
- Adjustment for distribution and administrative costs
  - Adjustment is developed to indicate the impact of non benefit expenses.
- Impact of specific eligibility categories for the catastrophic plan
  - No Adjustment was made for the impact of catastrophic membership eligibility.

The following table demonstrates the Plan Adjusted Index Rate development for each plan:

The Plan Adjusted Index Rates reflect the average demographic characteristics of the single risk pool and therefore are not calibrated.

### Experience Period Plan Adjusted Index Rates

Not applicable as Aetna is a new to the Kentucky Individual ACA market and has no historical experience.

## EXHIBIT 16. CALIBRATION (REDACTED)

A single calibration factor is applied to the Plan Adjusted Index Rates from Exhibit 15 to calibrate rates for the expected age and geographic distribution expected to enroll in the plan. The single calibration factor is applied uniformly across all plans.

### Age Curve Calibration

### Geographic Factor Calibration

Additional information regarding the area rating factors can be found on Exhibit 17.

The following table demonstrates the calibration performed for each plan.

## EXHIBIT 17. CONSUMER ADJUSTED PREMIUM RATE DEVELOPMENT (REDACTED)

The Consumer Adjusted Premium Rate is the final premium rate for a plan that is charged to an individual, family, or small employer group utilizing the rating and premium adjustments as articulated in the applicable Market Reform Rating Rules. It is the product of the Plan Adjusted Index Rate, the geographic rating factor, the age rating factor and the tobacco status rating factor. All rating factors are described and shown below.

Aetna's CY2016 age and tobacco rating factors are shown below. The age rating factors used by Aetna are identical to those prescribed by CMS. Industry research regarding tobacco use and differences in health costs for smokers by age was used as the basis of our adjustment factors.

**EXHIBIT 17. CONSUMER ADJUSTED PREMIUM RATE DEVELOPMENT (REDACTED)**

## EXHIBIT 18. AV METAL VALUES

The AV metal values included in Worksheet 2 are entirely based on the AV Calculator. Table 18.1 below summarizes these values for each product.

<b>Table 18.1</b> <b>Aetna Health Inc. (a PA corp.)</b> <b>Actuarial Values</b>		
<b>Plan</b>	<b>Actuarial</b>	<b>Actuarial Value</b>
KY Aetna Gold \$10 Copay HNOOnly	0.780	Federal AV Calculator
KY Aetna Silver \$10 Copay HNOOnly	0.681	Federal AV Calculator
KY Aetna Bronze \$40 Copay HNOOnly	0.619	Federal AV Calculator
KY Aetna Bronze Deductible Only HSA Eligible HNOOnly	0.603	Federal AV Calculator
KY Aetna Catastrophic HNOOnly	0.613	Federal AV Calculator
KY Aetna Gold \$10 Copay HNOOnly PD	0.780	Federal AV Calculator
KY Aetna Silver \$10 Copay HNOOnly PD	0.681	Federal AV Calculator
KY Aetna Bronze \$40 Copay HNOOnly PD	0.619	Federal AV Calculator
KY Aetna Bronze Deductible Only HSA Eligible HNOOnly	0.603	Federal AV Calculator
KY Aetna Catastrophic HNOOnly PD	0.613	Federal AV Calculator

## EXHIBIT 19. AV PRICING VALUES (REDACTED)

The following table summarizes all of the adjustments included in the AV Pricing Value:

**EXHIBIT 20. MEMBERSHIP PROJECTIONS (REDACTED)**



## EXHIBIT 21. TERMINATED PRODUCTS

No products will be terminated prior to the effective date.

## EXHIBIT 22. PLAN TYPE

There are no differences between the plans of Aetna and the plan type selected in the drop-down box in Worksheet 2, Section I of the Part I Unified Rate Review Template.

## EXHIBIT 23. WARNING ALERTS

There are no Warning Alerts on Worksheet 2.

## EXHIBIT 24. EFFECTIVE RATE REVIEW INFORMATION (OPTIONAL)

Not applicable.

## EXHIBIT 25. RELIANCE

In performing this analysis, I relied on data and other information provided by Aetna Health Inc. (a PA corp.). I have not audited or verified this data and other information. If the underlying data or information is inaccurate or incomplete, the results of our analysis may likewise be inaccurate or incomplete.

I performed a limited review of the data used directly in the analysis for reasonableness and consistency and have not found material defects in the data. If there are material defects in the data, it is possible that they would be uncovered by a detailed, systematic review and comparison of the data to search for data values that are questionable or for relationships that are materially inconsistent. Such a review was beyond the scope of the assignment.

A data reliance letter is attached to this rate submission.

## EXHIBIT 26. ACTUARIAL CERTIFICATION

I am a Principal & Consulting Actuary with the firm of Milliman, Inc. Aetna Health Inc. (a PA corp.) engaged me to provide the opinion herein.

Guidelines issued by the American Academy of Actuaries require actuaries to include their professional qualifications in all actuarial communications. I am a member of the American Academy of Actuaries, and I meet its qualification standards to perform the analysis and render the actuarial opinion contained herein.

I certify to the best of my knowledge and judgment:

1. The projected index rate is
  - In compliance with all applicable State and Federal Statutes and Regulations (45 CFR 156.80(d)(1))
  - Developed in compliance with the applicable Actuarial Standards of Practice
  - Reasonable in relation to the benefits provided and the population anticipated to be covered
  - Neither excessive nor deficient based on my best estimates of the 2016 Individual market.
2. The index rate and only the allowable modifiers as described in 45 CFR 156.80(d)(1) and 45 CFR 156.80(d)(2) were used to generate plan level rates.
3. The percent of total premium that represents essential health benefits included in Worksheet 2, Sections III and IV were calculated in accordance with actuarial standards of practice.
4. The geographic rating factors used reflect only differences in the cost of delivery, and do not include differences for population morbidity by geographic area.
5. The CMS Actuarial Value Calculator was used to determine the AV Metal Values shown in Worksheet 2, Section I of the Part I Unified Rate Review Template for all plans.


The Part I Unified Rate Review Template (URRT) does not demonstrate the process used to develop proposed premium rates. It is representative of information required by State and Federal regulations to be provided in support of the review of rate increases, for certification of qualified health plans for State facilitated marketplaces and for certification that the index rate is developed in accordance with State and Federal regulations and used consistently and only adjusted by the allowable modifiers.

The information provided in this actuarial memorandum is in support of the items illustrated in the URRT and does not provide an actuarial opinion regarding the process used to develop proposed premium rates. It does certify that rates were developed in accordance with applicable regulations, as noted.

Differences between the projections and actual amounts depend on the extent to which future experience conforms to the assumptions made for this analysis. It is certain that actual experience will not conform exactly to the assumptions used in this analysis. Actual amounts will differ from projected amounts to the extent that actual experience deviates from expected experience.

## EXHIBIT 26. ACTUARIAL CERTIFICATION

The projected premium rate index assumes that members are eligible to receive federal subsidies. As of the date below, the Supreme Court of the United States is considering whether those subsidies are lawful (King v. Burwell). I would not be able to certify that the proposed rates are adequate if the Supreme Court rules that the subsidies are not lawful. Accordingly, Aetna reserves the right to withdraw and/or amend this rate submission in the event of such a Supreme Court ruling.

Signed:   
Name: David Hayes, FSA, MAAA  
Title: Principal & Consulting Actuary  
Date: June 25, 2015